

Message Text

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SUBJECT: BELGIAN STEEL INDUSTRY MAKING MAJOR EFFORTS TO RESTORE
COMPETITIVENESS

1. SUMMARY. END-OF-YEAR EVENTS IN THE BELGIAN STEEL INDUSTRY
DRAMATIZED BOTH THE GRAVITY OF THE INDUSTRY'S PROBLEMS AND ITS
DETERMINATION TO ADOPT MEASURES THAT WILL ENABLE THE INDUSTRY
TO SURVIVE AND PROSPER AGAIN. THE MAJOR WALLONIAN STEEL FIRMS
ANNOUNCED AN IMPORTANT AGREEMENT ON COOPERATION TO COORDINATE
EFFORTS TO BREAK OUT OF THEIR INDUSTRY'S PROLONGED DEPRESSION.
AT THE SAME TIME, MOST BELGIAN STEELMAKERS CLOSED DOWN FOR
TWO WEEKS DURING THE HOLIDAY SEASON IN ORDER TO CUT COSTS WHILE
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ORDER BOOKS REMAIN UNFILLED. OTHER STEPS HAVE BEEN TAKEN RECENTLY
TO IMPROVE THE COMPETITIVE POSITION OF BELGIUM'S STEEL PRODUCERS,
BUT FEARS ARE GROWING THAT STRUCTURAL FACTORS MAY HAVE ERODED THE
FOUNDATIONS OF COMPETITIVENESS OF THIS BELGIAN INDUSTRY. IN
ADDITION TO ITS OWN EFFORTS FOR ECONOMIC REVIVAL, THE INDUSTRY IS
LOOKING FOR ASSISTANCE FROM THE EUROPEAN COMMUNITIES AND FROM THE
BELGIAN GOVERNMENT. THE GRADUALLY INCREASING CENTRALIZATION F THE

BELGIAN STEEL INDUSTRY DOES NOT AT LEAST OVERTLY PROVIDE FOR JOINT DECISIONS ON PRICES, BUT PRICE IS ONE OF THE ISSUES UNDER ACTIVE DISCUSSION BETWEEN INDUSTRY REPRESENTATIVES AND THE EC. END SUMMARY.

2. BACKGROUN. THE BELGIAN STEEL INDUSTRY TRADITIONALLY HAS BEEN LOCATED IN WALLONIA (THE FRENCH SPEAKING SOUTHERN HALF OF BELGIUM)--INLAND, BUT CLOSE TO THE COAL OF THE CAMPINE REGION AND THE IRON ORE OF LORRAINE. A NUMBER OF FIRMS ARE CLUSTERED AROUND THE TWO WALLONIAN URBAN CENTERS OF LIEGE AND CHARLEROI, PRODUCING BASIC STEEL PRODUCTS FOR SALE PRIMARILY TO CUSTOMERS IN OTHER EEC COUNTRIES. TOTAL CAPACITY IS FOUR OR FIVE TIMES GREATER THAN DOMESTIC CONSUMPTION. DESPITE THIS, MORE THAN HALF OF DOMESTIC STEEL NEEDS ARE MET THROUGH IMPORTS FROM OUTSIDE THE BELGIUM-LUXEMBOURG ECONOMIC UNION. THUS, THE BELGIAN INDUSTRY IS MARKEDLY DEPENDENT ON EXPORT DEMAND. UNUSUALLY FAVORABLE CONDITIONS (LOW ORE PRICES AND EXPLOITATION OF NEW DEPOSITS BY CAPITAL-INTENSIVE METHODS) IN THE '60S CREATED HIGH PROFITS WHICH WERE IN PART PASSED TO WORKERS IN THE FORM OF HIGHER WAGES AND BENEFITS, THEREBY BUILDING HIGHER COSTS INTO THE STRUCTURE OF THE BELGIAN INDUSTRY. DURING THAT PERIOD THE NATIONAL CAPACITY WAS INCREASED WITH THE INSTALLATION OF THE ARBED-AFFILIATED SIDMAR AT THE PORT OF GHENT IN FLANDERS (THE DUTCH SPEAKING NORTHERN PORTION OF BELGIUM), PRODUCERS OF ABOUT 2.25 MILLION TONS PER YEAR.

3. IT IS ARGUED BY ECONOMISTS, AND ACKNOWLEDGED BY INDUSTRY SOURCES, THAT EVEN DURING THE PERIOD OF GROWTH AND HIGH PROFITS FOR BELGIAN STEEL THE WRITING WAS ON THE WALL INDICATING THAT BELGIUM'S COMPETITIVE POSITION WAS BOUND TO WEKEN. THE ELEMENTS OF UNCLASSIFIED

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PROSPECTIVE WEAKNESS WERE THE FOLLOWING: INCREASING DISTANCE FROM RAW MATERIALS; INCREASED TRANSPORTATION COSTS; HIGH COST OF LABOR; INCREASED FOREIGN COMPETITION IN BASIC STEEL PRODUCTS; AND SMALL INTERNAL MARKET. (THESE POINTS ARE COVERED IN GREATER DETAIL IN PARAGRAPH 10 BELOW.)

4. THE LAST GREAT YEAR FOR BELGIAN STEEL WAS 1974, WHEN PRODUCTION ROSE TO A RECORD 16,150,000 TONS, AND NEW INVESTMENT TO A RECORD 17.4 BILLION BELGIAN FRANCS (ALMOST DOLS 500 MILLION), MORE THAN 50 PERCENT HIGHER THAN ANY PREVIOUS YEAR. IN THAT YEAR, HALF OF BELGIAN DELIVERIES WENT TO OTHER EEC COUNTRIES 30 PERCENT TO THIRD COUNTRIES, AND ONLY 20 PERCENT TO BELGIAN CUSTOMERS.

5. STRUCTURE OF THE INDUSTRY: THE BELGIAN STEEL INDUSTRY IS LOCATED FOR THE MOST PART IN THREE LOCALITIES: AROUND LIEGE AND CHARLEROI IN WALLONIA, AND MORE RECENTLY NEAR GHENT IN FLANDERS. IN THE EARLY '70S, SEVERAL STEEL FIRMS IN THE LIEGE AREA REGROUPED THEMSELVES UNDER A SINGLE CORPORATE UMBRELLA WITH THE NAME S.A. COCKERILL-LOUGREE-PROVIDENCE ET ESPERANCE-LONGDOZ, OR "COCKERILL".

IN THE PEAK YEAR OF 1974 COCKERILL PRODUCED 6.6 MILLION TONS, PRIMARILY SHEETS. THERE HAS BEEN A SHIFT IN RECENT YEARS AT COCKERILL TOWARD MORE HIGHLY ELABORATED STEEL PRODUCTS, FOR WHICH MARKET PROJECTIONS ARE CONSIDERED BETTER THAN FOR BASIC AND SEMI-FINISHED PRODUCTS.

6. THE SECOND TRADITIONAL WALLONIAN CENTER OF STEEL PRODUCTION IS AROUND CHARLEROI, WHERE THE SEVERAL MANUFACTURERS STILL REMAIN SEPARATE CORPORATE IDENTITIES. BUT IN 1976 THEY TOOK MAJOR STEPS TO CONSOLIDATE MANY IMPORTANT FUNCTIONS. IN JULY, METALLURGIQUE HAINAUT-SAMBRE, FORGES DE THY-MARCINELLE AND MONCEAU, AND LAMINOIRS DE RUAAU CAME UNDER THE FINANCIAL CONTROL OF A NEWLY ESTABLISHED HOLDING COMPANY-- FINANCIERE DE RUAAU--WHICH IS JOINTLY CONTROLLED BY THE FRERE-BOURGEOIS GROUP, BANQUE BRUXELLES-LAMBERT, AND BANQUE DE PARIS ET DE PAYS-BAS. ALBERT FRERE IS CHIEF EXECUTIVE OF ALL THREE MANUFACTURING FIRMS, AS WELL AS

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LEADER OF THE FRERE-BOURGEOIS GROUP. THE COMBINED 1974
PRODUCTION OF THE THREE ASSOCIATED FIRMS WAS AROUND 4.8
MILLION TONS, CONSISTING CHIEFLY OF ROLLED BASIC PRODUCTS
DESTINED FOR THE ONSTRUCTION INDUSTRY OR FOR OTHER METALWORKING.

7. THE THIRD PRODUCTIN CENTER IS THE SIDERURGIE MARITIME
("SIDMAR") INSTALLATION AT ZELZATE, THE PORT OF GHENT, IN
FLANDERS. THAT INTEGRATED FACILITY IS OWNED BY ARBED, THE LARGE
LUXEMBOURG-BASED STEEL MANUFACTURER. SIDMAR IN 1974
PRODUCED SOME 2.25 MILLION TONS OF LARGE, WIDE, FLAT PRODUCTS. IT
HAS SUFFERED ALONG WITH THE WALLONIAN FIRMS IN THE INDUSTRY'S
"DEPRESSION" (THE WORD CHOSEN BY THE INDUSTRY ORGANIZATION IN
ITS PUBLICATIONS) OF 1975-76, BUT IS GENERALLY CONSIDERED TO
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REST ON A SOLID BASE, BOTH FINANCIALLY AND COMPETITIVELY.
SIDMAR DOES NOT SUFFER FROM THE FPROBLEMS OF LOCATION, PRODUCT
MIX, HIGH TRANSPORTATION COSTS, AND OLD PLANT THAT AFFLICT MOST
OF THE WALLONIAN FACILITIES.

8. IN DECEMBER 1976, STEELMAKERS FROM LIEGE AND CHARLEROI,
CONTROLLING ABOUT 60 PERCENT OF BELGIAN CAPACITY, TOOK AN
IMPORTANT NEW STEP IN THE GRADUAL PROCESS OF CENTRALIZATION OF
THE INDUSTRY IN BELGIUM. COCKERILL OF LIEGE, AND HAINAUT-
SAMBRE, THY-MARCINELLE, AND LAMINOIRS DE RUAAU OF CHARLEROI
(THE SAME FIRMS THAT HAD MOVED UNDER A SINGLE FINANCIAL UMBRELLA
IN JULY--SEE PARAGRAPH 6 ABOVE) AGREED FORMALLY TO COORDINATE AND
COLLABORATE ON MEASURES TO RESTORE THEIR COMPETITIVENESS, WHILE
RETAINING THEIR PRESENT LEGAL STRUCTURES. THESE FIRMS WILL EXCHANGE
INFORMATION AND JOINTLY CONDUCT STUDIES. THEY WILL COORDINATE THEIR
POLICIES AND PLANNING, NOTABLY CONCERNING SUPPLIES, TRANSPOR-
TATION, AND PRODUCTION. THEY INTEND TO WORK OUT TOGETHER THE BEST
USE OF EXISTING MEANS AND PLAN FOR FUTURE NEEDS. THE AGREEMENT
IS OPEN TO OTHER FIRMS IF THEY ARE PREPARED TO ACCEPT THE TEMS
WITHOUT AMENDMENT--A PROVISION PRESUMABLY REFERRING TO TWO
MILLION-TON-PLUS STEEL FIRMS OUTSIDE OF CHARLEROI: USINES GUSTAVE
BOEL AND FORGES DE CLABECQ.

9. RECENT SITUATION. SINCE THE BOOM YEAR OF 1974 THERE HAS BEEN
LITTLE GOOD NEWS FOR BELGIAN STEELMAKERS. THEY PRODUCED 28.6
PERCENT LESS IN 1975 THAN IN 1974 (11.6 MILLION TONS, COMPARED TO
16.2 MILLION TONS), BUT CONTINUED INVESTING AT A HIGH RATE, AND
ANTICIPATED BETTER TIMES IN 1976 WHEN THEY BELIEVED THAT THE
RECESSION IN THE OECD COUNTRIES WOULD BE OVER. THERE WAS INDEED A
MODEST UPTURN OF ABOUT 5 PERCENT FOR BELGIAN STEEL PRODUCTION

1976, TO 12.1 MILLION TONS, BUT AT THE END OF THE YEAR ORDERS WERE DOWN AND MOST STEEL COMPANIES TOOK WHAT WAS FOR THEM AN UNPRECEDENTED STEP OF CLOSING DOWN FOR TWO WEEKS DURING THE HOLIDAY PERIOD. THE CONVICTION WAS BECOMING GENERAL THAT THE BELGIAN COMPETITIVE POSITION HAS SLIPPED RELATIVE TO OTHER PRODUCERS BOTH WITHIN AND OUTSIDE OF THE EUROPEAN COAL AND UNCLASSIFIED

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STEEL COMMUNITY. GOVERNMENT SPOKESMAN CONTINUE TO MAINTAIN PUBLICLY THAT THE PROBLEM IS LARGELY CYCLICAL, BUT EVEN THEY ADMIT OFF THE RECORD THAT CYCLICAL FACTORS BECOME STRUCTURAL WHEN THEY PERSIST FOR TOO LONG.

10. IN THE PRESENT ANXIOUS MOOD, THE AGREEMENT BETWEEN CHARLEROI AND LIEGE STEEL FIRMS (PARA 8 ABOVE) IS SEEN BY THE BELGIANS AS A FAINT RAY OF HOPE. BUT THE STEPS TAKEN SO FAR ADDRESS ONLY CERTAIN ASPECTS OF THE PROBLEM OF KEEPING BELGIAN STEEL COMPETITIVE. THE INDUSTRY HAS LONG BEEN A BULWARK OF THE ECONOMY OF WALLONIA AND STILL DIRECTLY EMPLOYS MORE THAN 50,000 PERSONS. IT CANNOT BE PERMITTED TO COLLAPSE. BUT THE PROBLEMS THAT MUST BE OVERCOME TO MAKE IT COMPETITIVE AND PROFITABLE AGAIN ARE FORMIDABLE. THOSE PROBLEMS INCLUDE THE FOLLOWING:

-- PRODUCT MIX. THE WALLONIAN FIRMS TRADITIONALLY HAVE PRODUCED CHIEFLY BASIC IRON AND STEEL PRODUCTS FOR THE CONSTRUCTION INDUSTRY, FOR WHICH WORLDWIDE DEMAND HAS BEEN AND IS LIKELY TO REMAIN RELATIVELY SLOW TO INCREASE. COMPETITION IN THESE PRODUCTS HAS BEEN GROWING FROM JAPAN AND DEVELOPING COUNTRIES LIKE BRAZIL, AS WELL AS FROM THE PROLIFERATION OF MINI-MILLS IN OTHER INDUSTRIALIZED COUNTRIES WHERE BELGIAN PRODUCTS HAD BEEN USED (E.G., THE AMERICAN SOUTH). TO RESPOND TO THE NEW SITUATION, COCKERILL HAS ALREADY GONE SOME WAY TO REORIENT ITS PRODUCTION TO MORE HIGHLY ELABORATED OR SPECIALIZED PRODUCTS; AND HAINAUT-SAMBRE, THE LARGEST OF THE CHARLEROI FIRMS, THIS FALL BEGAN PRODUCTION AT A NEW ROLLING MILL, INTRODUCING A NEW AND MORE PROMISING LINE FOR THE REGION.

-- SMALL INTERNAL MARKET. ABOUT 80 PERCENT OF BELGIAN STEEL PRODUCTION WAS EXPORTED IN 1975 (50 PERCENT WITHIN THE EC-9, AND 32 PERCENT ELSEWHERE). BELGIUM'S LIBERAL TRADE POLICY OPENS ITS SMALL MARKET TO FOREIGN SUPPLIERS, AND IN 1975 MORE THAN HALF OF BELGIAN DOMESTIC STEEL CONSUMPTION CAME FROM IMPORTS. WALLONIAN FIRMS HAVE NEITHER LONG TERM CONTRACTS WITH CUSTOMERS NOR ARE THEY VERTICALLY INTEGRATED; THUS, THEY HAVE NO CUSHION UNCLASSIFIED

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AGAINST RAPID SHIFTS IN WORLD MARKET CONDITIONS.

-- LOCATION. THE COAL MINES OF THE CAMPINE, WHICH HELPED DETERMINE THE ORIGINAL SITING OF THE WALLONIAN STEEL INDUSTRY, ARE NOW ALMOST EXHAUSTED (AND THEIR PRODUCTION IS VERY EXPENSIVE), AS ARE THE IRON ORE DEPOSITS OF NEARBY LORRAINE. RAW MATERIALS NOW COME FROM LONG DISTANCES--SWEDEN, POLAND, THE USA, VENEZUELA--AT HIGHER PRICES. TRANSPORTATION COSTS ARE INCREASED BY THE INLAND LOCATION OF IEGE AND CHARLEROI (DESPITE THEIR ACCESSIBILITY VIA CANALS).

-- HIGH LABOR COSTS. BELGIAN WAGES ARE AMONG THE

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HIGHEST IN THE WORLD, WITH GENEROUS SOCIAL BENEFITS INCLUDED. WORKERS ARE PRODUCTIVE WHEN WORKING, BUT IN RECENT YEARS LABOR-MANAGEMENT RELATIONS HAVE BECOME MORE DIFFICULT AND THERE ARE FREQUENT SLOWDOWNS AND STOPPAGES. PRODUCTIVITY COMPARED FAVORABLY WITH STEELMAKERS ANYWHERE IN THE WORLD IN THE EARLY '70S, AND IT REMAINS HIGH; BUT COMPETITORS HAVE BEEN CATCHING

UP, AND THERE IS NO PROSPECT OF ADDITIONAL BELGIAN IMPROVEMENT, SHORT OF A MAJOR RESTRUCTURING OF THE INDUSTRY, THE COST OF WHICH WOULD BE UNSUPPORTABLE. A HEAVY DEBT OVERHANG HAS DEVELOPED WHICH CANNOT BE REPAID OUT OF CURRENT OPERATIONS UNLESS BUSINESS IMPROVES SUBSTANTIALLY; DEBT SERVICING ROSE FROM 20 PERCENT OF TURNOVER IN 1974 TO 34 PERCENT IN 1975 (BECAUSE OF BOTH CONTINUED NEW INVESTMENT AND REDUCED RECEIPTS).

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11. IMMEDIATE PROSPECT. IN SUM, THE ECONOMIC RECESSION OF 1975 BECAME A FULL DEPRESSION FOR THE BELGIAN STEEL INDUSTRY. AS 1977 BEGINS, NEW ORDERS CONTINUE TO LAG AND FACILITIES FUNCTION AT LESS THAN 60 PERCENT OF CAPACITY. THE CONVICTION IS GROWING THAT THE MARKET POSITION OF WALLONIAN STEELMAKERS HAS ERODED FUNDAMENTALLY. IF THAT PROVES TO BE TRUE, THE INDUSTRY'S REORGANIZATION, GREATER CENTRALIZATION, AND RECENT NEW INVESTMENT WILL NOT ALONE BE SUFFICIENT TO SUSTAIN ITS VIABILITY.

12. THE INDUSTRY THUS MUST SEEK OTHER MEASURES TO HELP KEEP ITS FACILITIES OPERATING AND ITS 50,000 WORKERS EMPLOYED. IT HAS DISCUSSED THE PROBLEMS OF PRICE STRUCTURE AND OF MARKET ORGANIZATION (BOTH INTERNAL AND IN RELATION TO EXTERNAL COMPETITORS AND CONSUMERS) WITH THE EUROPEAN COMMUNITIES. IT SHOULD BE NOTED THAT THE REORGANIZATION OF THE STRUCTURE OF WALLONIAN STEEL FIRMS HAS NOT AS YET INCLUDED, OVERTLY AT LEAST, COORDINATION OF PRICE POLICY AMONG INDEPENDENT FIRMS. INDUSTRY SPOKESMEN DO NOT DISGUISE THEIR INTEREST IN QUESTIONS OF PRICE POLICY, HOWEVER. THE ISSUE HAS BEEN FACED DIRECTLY IN EC DISCUSSIONS DURING THE ELABORATION OF THE SIMONET PLAN. THE BELGIANS FAVOR AGREEMENT ON MINIMUM PRICES BECAUSE THEY DO NOT CONSIDER THEMSELVES WELL PLACED TO SURVIVE A PERIOD OF CUTTHROAT PRICE COMPETITION WITH OTHER EUROPEAN FIRMS. THEY WANT ASSURANCES THAT THE BURDEN OF HARD TIMES WILL BE SHARED EQUITABLY. THEY ALSO SEEK GREATER PROTECTION FROM AGGRESSIVE THIRD-COUNTRY PRODUCERS - CHIEFLY JAPAN, BUT ALSO SPAIN - WHO ARE UNDERSELLING BELGIAN PRODUCERS IN THEIR TRADITIONAL MARKETS. AND THEY SEEK MORE EFFECTIVE EUROPEAN ACTION TO KEEP OPEN MARKETS THAT HAVE BEEN LIMITED BY ESTABLISHMENT OF QUOTAS OR OTHER BARRIERS; THE U.S. SPECIALTY STEEL QUOTA IS THE EXAMPLE CITED MOST OFTEN.

13. IF HARD TIMES PERSIST, AS IS CONSIDERED CERTAIN AT LEAST THROUGH THE FIRST QUARTER OF 1977, BELGIAN NATIONAL MEASURES SUCH AS SUBSIDIES - OR EVEN, ULTIMATELY, NATIONALIZATION - MAY HAVE TO BE CONSIDERED TO PREVENT MAJOR SHUTDOWNS - AN

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EVENTUALITY TOO DIRE FOR THE BELGIAN GOVERNMENT TO PERMIT TO
OCCUR. THUS FAR, HOWEVER, THE NATIONAL GIVERNMENT HAS REMAINED
IN THE BACKGROUND THROUGHOUT THE STEEL INDUSTRY CRISIS, WHILE
A SOLUTION HAS BEEN SOUGHT BY THE INDUSTRY ITSELF AND BY THE
EC COMMISSION. RENNER

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